Being the best at what we do
Disclaimer

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Solid progress on strategy actions

One of the world’s leading technology companies

Outperforming our chosen markets
Achieving world-class competitiveness

Excellence system

Strong financial framework
H1 Business Review

Andy Reynolds Smith
Chief Executive
Smiths Group plc Interim Results for 6 months ended 31 January 2017

- Group revenue slightly up on an underlying basis; up 18% on a reported basis
- Group headline operating profit up 8% on an underlying basis; up 27% on a reported basis
- Basic headline EPS up 30%
- Cash conversion strong at 115%; FCF up 44%
- Proposed interim dividend of 13.55 pence per share

**Headline revenue***
£1,616m

**Headline operating profit***
£277m
+8%

**Headline operating profit margin***
17.1%
+150bps

**Aftermarket and consumables**
53%
-200bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
John Crane - Continuing resilience

- Ongoing challenges in global energy markets
- Aftermarket revenue* up 3%; first-fit down 15%
- Progress in non-Oil & Gas markets
- R&D: condition monitoring field trials expanded
- Disposal of Artificial Lift completed – significantly reducing upstream O&G exposure to less than 5%

Headline revenue

£435m  
-4%*

Headline operating profit

£90m  
-4%*

Headline operating profit margin

20.8%  
+90bps

Aftermarket

64%  
+600bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
Smiths Medical - Weaker revenue but profit up

- Revenue decline driven by Vascular Access and Infusion Systems, growth in Vital Care
- Margin expansion despite pricing pressure and revenue decline, driven by efficiency improvements
- Asia market:
  - India +24%
  - South East Asia +8%
  - China -13%
- R&D increased 100bps to 6.8% of sales
- Disposal of Wallace completed

Headline revenue
£472m
-2%*

Headline operating profit
£99m
+7%*

Headline operating profit margin
21.0%
+50bps

Aftermarket and consumables
83%
+200bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
Smiths Detection - Strong revenue and profit growth

- Revenue growth driven primarily by Transportation, Military and Critical Infrastructure
- Margin expansion due to higher sales, improved mix and efficiencies
- Asia-Pacific +7%
- R&D increased 70bps to 6.3% of sales
- Morpho Detection expected to complete shortly

Headline revenue

£318m
+12%*

Headline operating profit

£54m
+51%*

Headline operating profit margin

16.8%
+440bps

Aftermarket and consumables

35%
-300bps

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Subject to regulatory clearances | * On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
Smiths Interconnect - Progress to sharpen focus

- Flat sales from Connectors, offset by lower sales from Microwave
- Increased margin due to restructuring and procurement savings
- Divisional reorganisation implemented
- China +7%
- Disposal of Power completed

Headline revenue
£230m  
-1%*

Headline operating profit
£26m  
+15%*

Headline operating profit margin
11.3%  
+160bps

* On an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
- Continued steady progress
- Revenue growth in Construction and Heat Solutions, driven by US housing market
- Margin expansion driven by efficiency savings

Headline revenue
£161m
+2%*

Headline operating profit
£30m
+7%*

Headline operating profit margin
18.3%
+70bps

* On an underlying basis, Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation
H1 Financial Review

Chris O’Shea
Chief Financial Officer
### Financial performance

<table>
<thead>
<tr>
<th></th>
<th>(£m)</th>
<th>H1 2017</th>
<th>H1 2016</th>
<th>Underlying(^1) growth</th>
<th>Reported growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline revenue</td>
<td></td>
<td>1,616</td>
<td>1,372</td>
<td>0%</td>
<td>+18%</td>
</tr>
<tr>
<td>Headline operating profit</td>
<td></td>
<td>277</td>
<td>217</td>
<td>+8%</td>
<td>+27%</td>
</tr>
<tr>
<td><strong>Headline operating margin</strong></td>
<td></td>
<td><strong>17.1%</strong></td>
<td><strong>15.8%</strong></td>
<td>+150 bps</td>
<td>+130 bps</td>
</tr>
<tr>
<td>Headline free cash flow</td>
<td></td>
<td>252</td>
<td>174</td>
<td></td>
<td>+44%</td>
</tr>
<tr>
<td>ROCE</td>
<td></td>
<td>16.3%</td>
<td>15.4%</td>
<td></td>
<td>+90 bps</td>
</tr>
<tr>
<td>Headline EPS</td>
<td></td>
<td>45.7p</td>
<td>35.2p</td>
<td></td>
<td>+30%</td>
</tr>
<tr>
<td>Dividend per share</td>
<td></td>
<td>13.55p</td>
<td>13.25p</td>
<td></td>
<td>2.3%</td>
</tr>
</tbody>
</table>

\(^1\) Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation
Group headline revenue\(^1\) in line with prior year

<table>
<thead>
<tr>
<th></th>
<th>H1 16 Revenue</th>
<th>Currency translation and A&amp;D</th>
<th>H1 16 Revenue underlying</th>
<th>John Crane</th>
<th>Medical</th>
<th>Detection</th>
<th>Interconnect</th>
<th>Flex-Tek</th>
<th>Group</th>
<th>Underlying revenue growth</th>
<th>Underlying revenue growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td></td>
<td>£m</td>
<td>-4%</td>
<td>-2%</td>
<td>+12%</td>
<td>-1%</td>
<td>+2%</td>
<td>0%</td>
<td>volume/mix</td>
<td>+£26m</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>price</td>
<td>-£7m</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>other</td>
<td>-£11m</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Group</td>
<td>+£8m</td>
</tr>
</tbody>
</table>

\(^1\) Revenue on an underlying basis. Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation.
**Headline profit** increased by 8%

Volume/mix: £8m
- Price: +£8m
- Costs: -£4m

Volume/mix: +£16m
- Price: -£4m
- Cost savings: +£6m

Volume/mix: -
- Price: -£2m
- Cost savings: +£4m

<table>
<thead>
<tr>
<th>Segment</th>
<th>H1 '17 Operating margin</th>
<th>H1 '16 Operating margin</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Crane</td>
<td>20.8%</td>
<td>19.9%</td>
<td>+90 bps</td>
</tr>
<tr>
<td>Medical</td>
<td>21.0%</td>
<td>20.5%</td>
<td>+50 bps</td>
</tr>
<tr>
<td>Detection</td>
<td>16.8%</td>
<td>12.4%</td>
<td>+440 bps</td>
</tr>
<tr>
<td>Interconnect</td>
<td>11.3%</td>
<td>9.7%</td>
<td>+160 bps</td>
</tr>
<tr>
<td>Flex-Tek</td>
<td>18.3%</td>
<td>17.6%</td>
<td>+70 bps</td>
</tr>
<tr>
<td>Group margin</td>
<td>17.1%</td>
<td>15.8%</td>
<td>+130 bps</td>
</tr>
</tbody>
</table>

**H1 17 Operating profit** reported £277m

**H1 16 Operating profit** reported £217m

**Currency translation and A&D** £38m

**Volume/mix** £7m
- Price: -£6m
- Cost savings: +£8m

**Volume/mix** £18m
- Price: +£1m
- Cost savings: +£2m

**Volume/mix** £2m
- Price: -£2m
- Cost savings: +£4m

Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

1 Profit on an underlying basis.
Headline free cash flow increased 44%

<table>
<thead>
<tr>
<th>(£m)</th>
<th>H1 2017</th>
<th>H1 2016</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline operating profit</td>
<td>277</td>
<td>217</td>
<td>+21%</td>
</tr>
<tr>
<td>Capex</td>
<td>(51)</td>
<td>(42)</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>52</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>27</td>
<td>(10)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>15</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Headline operating cash flow</td>
<td>320</td>
<td>218</td>
<td>+47%</td>
</tr>
<tr>
<td>Operating cash conversion</td>
<td>115%</td>
<td>101%</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>(22)</td>
<td>(19)</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>(46)</td>
<td>(25)</td>
<td></td>
</tr>
<tr>
<td>Headline free cash flow</td>
<td>252</td>
<td>174</td>
<td>+44%</td>
</tr>
</tbody>
</table>
Underlying reduction in net debt of £343m

- Net debt 31.07.16: £978m
- Foreign exchange & fair value: £17m
- Net debt at constant currency 31.07.2016: £995m
- Headline free cash flow: £252m
- Pensions: £44m
- Proceeds from disposals: £320m
- Other non-headline: £41m
- Other: £13m
- Dividend: £114m
- Net debt 31.01.2017: £635m
Smiths Group plc Interim Results for 6 months ended 31 January 2017

Inventory Days

- 1 day of inventory = £5m
- In 6 months = 4 day reduction
- In 12 months = 7 day reduction
- Opportunity to improve further inventories
Strong and continuous cash generation

- Cash positive every month
- Steady cash generation quarter after quarter
- Ability to de-leverage every month
The Group has a good range of debt maturities

<table>
<thead>
<tr>
<th>Weighted average debt facilities maturity</th>
<th>Weighted average interest rate*</th>
<th>Credit ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.5 years*</td>
<td>3.5%*</td>
<td>BBB+/Baa2 stable</td>
</tr>
<tr>
<td>+2.0 years</td>
<td>-20bps</td>
<td></td>
</tr>
</tbody>
</table>

Interest rate exposure*  
Fixed: 55%  
Floating: 45%

<table>
<thead>
<tr>
<th>£m</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 175m</td>
<td>7.37%</td>
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<tr>
<td>USD 250m</td>
<td>7.20%</td>
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<tr>
<td>USD 800m</td>
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<tr>
<td>Floating</td>
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<tr>
<td>USD 400m</td>
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<tr>
<td>3.625%</td>
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<tr>
<td>EUR 600m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>1.25%</td>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>EUR 650m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.0%</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Includes the new EUR650m bond concluded in February 2017 and excludes the 2017 maturity bond which will be repaid.
Continued de-risking on pensions

<table>
<thead>
<tr>
<th>UK Pension Scheme Assets</th>
<th>31 January 2017</th>
<th>31 July 2016</th>
<th>Hedge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>26%</td>
<td>23%</td>
<td>Interest</td>
</tr>
<tr>
<td>Government bonds</td>
<td>41%</td>
<td>49%</td>
<td>Interest + Inflation</td>
</tr>
<tr>
<td>Insured liabilities (buy in contracts)</td>
<td>26%</td>
<td>19%</td>
<td>Interest + Inflation + Mortality</td>
</tr>
<tr>
<td>Total LDI Assets</td>
<td>93%</td>
<td>91%</td>
<td></td>
</tr>
</tbody>
</table>

- Reduced annual required contributions to c.£60m following the outcome of the 2015 triennial valuation
  - Certainty of funding over next three years
  - Boost to free cash flow
- Pension assets substantially de-risked, deficits lowered
  - Further de-risking of UK schemes with £380m buy-ins
M&A activity to high grade the portfolio

Revenue

<table>
<thead>
<tr>
<th></th>
<th>H1 2017</th>
<th>Artificial Lift (JC)</th>
<th>Wallace (Medical)</th>
<th>Power (Interconnect)</th>
<th>H1 2017 pro-forma</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,616</td>
<td></td>
<td></td>
<td></td>
<td>1,553</td>
</tr>
<tr>
<td>(11)</td>
<td></td>
<td>(5)</td>
<td></td>
<td>(47)</td>
<td></td>
</tr>
</tbody>
</table>

Operating profit

<table>
<thead>
<tr>
<th></th>
<th>H1 2017</th>
<th>Artificial Lift (JC)</th>
<th>Wallace (Medical)</th>
<th>Power (Interconnect)</th>
<th>H1 2017 pro-forma</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>277</td>
<td></td>
<td></td>
<td></td>
<td>269</td>
</tr>
<tr>
<td>17.1%</td>
<td>2</td>
<td>(3)</td>
<td>(7)</td>
<td>17.3%</td>
<td></td>
</tr>
</tbody>
</table>
Morpho Detection acquisition

- In final stages of regulatory approval
- Completion expected shortly
- Remedies: Morpho Detection’s Trace business being marketed and following close of transaction will be held separate until disposal.
  - Morpho Trace detection revenue = c. 25% of Morpho Detection
  - Lower aftermarket content than Morpho Detection
- Targeting annual cost synergies of c.$20m by the third full year after closing (post remedies)
- Strategic and value case remain compelling
Our financial strategy remains focused

Strong financial framework

- Maintain a strong investment grade credit rating
- Invest in opportunities which create value
- Measured balance sheet management
- Active portfolio management
- Maintain a competitive tax rate
- Robust enterprise risk management

Invest wisely and manage the investments well

Underlying revenue flat (H1 2016: -3%)

17.1% margin (H1 2016: 15.8%)

115% cash conversion (H1 2016: 101%)

16.3% ROCE (H1 2016: 15.4%)
Overall outlook is unchanged

- Continued revenue pressures in John Crane
- Performance slightly weighted to H2
- Strong cash conversion
- Foreign exchange tailwind
- Completion of acquisition of Morpho Detection\(^1\) \(\text{\footnotesize Subject to regulatory clearances}\)
- 26%-27% effective tax rate for 2017, expected to increase to 30%-31% in 2018
Strategy update

Andy Reynolds Smith
Chief Executive
Strategy in action

→ Outperforming our chosen markets

Achieving world-class competitiveness
Repositioning the portfolio for future growth

Building a bigger, better and more focused Smiths

60% of our businesses are well positioned

Businesses that need improvement or are in non-core markets

Add Morpho Detection, remove disposals

70% of our businesses are well positioned

Businesses that need improvement or are in non-core markets

Non-core

FIX

SELL

BUILD

Building a bigger, better and more focused Smiths
Outperforming our chosen markets - organic growth

- Technology differentiation
- High proportion of aftermarket and recurring revenues
- Positioned in growing markets
- Increasing digitisation
- Sustainably competitive and asset light
## New Product Introduction process

- Standardised process across the Group
  - **Consistency**

- Quarterly audit process led by $i^3$ and divisional peers
  - **Unbiased review**

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Phase 0: Product Concept</td>
</tr>
<tr>
<td>1</td>
<td>Phase 1: Project Planning</td>
</tr>
<tr>
<td>2</td>
<td>Phase 2: Dev. and Verification</td>
</tr>
<tr>
<td>3</td>
<td>Phase 3: Pilot &amp; Validation</td>
</tr>
<tr>
<td>4</td>
<td>Phase 4: Launch</td>
</tr>
<tr>
<td>5</td>
<td>Phase 5: Product Lifecycle Review</td>
</tr>
<tr>
<td>6</td>
<td>Phase 6: Product Retirement</td>
</tr>
</tbody>
</table>

---

### $i^3$

- Group-wide technology roadmaps
- Now commissioning projects - ultra high speed data transmission & machine learning
- More ambitious roll-out of new technologies
- Group R&D increased from 4.0% to 4.5% of revenue
Outperforming our chosen markets - targeting the right geographies

- Asia exposure is too low
- Requires fundamental shift in approach
- Appointed Smiths Group Asia President at Executive Committee level
- Leadership across region to build commercial presence and operations
Strategy in action

Outperforming our chosen markets

→ Achieving world-class competitiveness
Achieving world-class competitiveness - the Excellence system
Supply chain excellence

- Strong cash conversion
- 1 stock turn = £150m to invest in future growth
- Modest in H1 but more to come over time

- Group initiative on Strategic Supplier development
- Connectors suppliers cut from 2,500 to 350
- Benefits:
  - Procurement savings
  - Collaboration to improve processes, reduce waste and focus on innovation
Channels to market and sales effectiveness

• Undertaking review of channels to market
• Reviewing sales effectiveness and incentivisation across the Group
• Initiatives underway to drive more effective selling
  - Detection: distributors role in aftermarket sales and servicing
  - Interconnect: halved number of distributors
Production excellence

- Layout optimised: “doing more with less”
  - 59% reduction in lead time
  - 57% reduction in work in progress
  - 32% in headcount reduction

- Frees up people and space to support other business activities

- Smiths Excellence System aims to transfer best practice across the Group
Introduction of the Smiths Way

- Building an organisation based on Talent and Leadership
- ‘Smiths Way’ culture change programme
- Leadership programmes launched
- Incentivising leaders on key metrics
Solid progress on strategy actions

- One of the world’s leading technology companies
- Outperforming our chosen markets
- Achieving world-class competitiveness
- Excellence system
- Strong financial framework
Being the best at what we do

www.smiths.com
Appendix
## Non-headline items in operating profit

<table>
<thead>
<tr>
<th>(£m)</th>
<th>H1 2017</th>
<th>H1 2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headline operating profit</strong></td>
<td>277</td>
<td>217</td>
<td>+27%</td>
</tr>
<tr>
<td>Fuel For Growth</td>
<td>(15)</td>
<td>(15)</td>
<td></td>
</tr>
<tr>
<td>Legacy liabilities - litigation</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>(4)</td>
<td>(15)</td>
<td></td>
</tr>
<tr>
<td>Amortisation of acquired intangibles</td>
<td>(6)</td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td>Acquisition costs</td>
<td>(6)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Profit of disposals</td>
<td>126</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total non-headline items</strong></td>
<td>100</td>
<td>(34)</td>
<td></td>
</tr>
<tr>
<td><strong>Statutory operating profit</strong></td>
<td>377</td>
<td>183</td>
<td>+106%</td>
</tr>
</tbody>
</table>

Smiths Group plc Interim Results for 6 months ended 31 January 2017
Current foreign exchange rates could provide a tailwind in reported profits

- **Sensitivity**
  - For each $0.1 movement, +/- £15m on operating profit
  - For each €0.1 movement, +/- £3m on operating profit

- **H1 2017 FX tailwind**
  - Revenue £251m (+18%)
  - Operating profit £39m (+18%)

- **FY 2016 average rates vs spot rates**

<table>
<thead>
<tr>
<th></th>
<th>FY 2016 average rates</th>
<th>January 31&lt;sup&gt;st&lt;/sup&gt; 2017 rates</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>1.46</td>
<td>1.26</td>
<td>USD strengthened 14%</td>
</tr>
<tr>
<td>EUR</td>
<td>1.32</td>
<td>1.17</td>
<td>EUR strengthened 11%</td>
</tr>
</tbody>
</table>
### Exceptional items - H1 2017

<table>
<thead>
<tr>
<th>£m</th>
<th>John Crane</th>
<th>Medical</th>
<th>Detection</th>
<th>Interconnect</th>
<th>Flex-Tek</th>
<th>Central</th>
<th>HY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headline operating profit – existing basis</strong></td>
<td>90</td>
<td>99</td>
<td>54</td>
<td>26</td>
<td>30</td>
<td>(22)</td>
<td>277</td>
</tr>
<tr>
<td><strong>Existing operating margin %</strong></td>
<td>20.8%</td>
<td>21.0%</td>
<td>16.8%</td>
<td>11.3%</td>
<td>18.3%</td>
<td></td>
<td>17.1%</td>
</tr>
<tr>
<td><strong>Restructuring programmes</strong></td>
<td>(3)</td>
<td>(6)</td>
<td>(1)</td>
<td>(2)</td>
<td>(1)</td>
<td>(2)</td>
<td>(15)</td>
</tr>
<tr>
<td><strong>Pension admin costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Headline operating profit – revised basis</strong></td>
<td>87</td>
<td>93</td>
<td>53</td>
<td>24</td>
<td>29</td>
<td>(28)</td>
<td>258</td>
</tr>
<tr>
<td><strong>Revised operating margin %</strong></td>
<td>20.0%</td>
<td>19.6%</td>
<td>16.6%</td>
<td>10.4%</td>
<td>18.2%</td>
<td></td>
<td>16.0%</td>
</tr>
</tbody>
</table>